

## **APPENDIX E**

### **AUDITS AND INVESTIGATIONS DIVISION SINGLE AUDIT DESK REVIEW QUESTIONNAIRE AND CHECKLIST**

## **NON –PROFIT AUDIT REQUIREMENTS**

### **SINGLE AUDIT REPORTING REQUIREMENTS AND REPORT REVIEW PROCEDURES**

## **AUDIT REPORT REVIEW QUESTIONNAIRE AND NARRATIVE**

This section is intended as a guide for auditors for applying the reporting requirements in a Single Audit. The auditor has additional supplemental reporting requirements for single audits of the Nutrition Services, Child Development and Adult Basic Education programs.

The Audits and Investigations Division (AID) has taken the Presidents Council on Integrity and Efficiency (PCIE) checklist approach for its desk reviews of single audits.

### **SINGLE AUDIT REPORT REVIEW QUESTIONNAIRE AND NARRATIVE**

#### **Introduction**

**PURPOSE:** The purpose of this review is to assure that audit reports meet applicable reporting standards, and the OMB Circular A-133 and FASB Statement No. 117 reporting requirements. It is also used to provide assurance that the scope of desk reviews is sufficient to fulfill the objective and the consistent review of audit reports.

**APPLICABILITY:** This review questionnaire is intended for use when performing desk reviews of OMB Circular A-133 and FASB Statement Nos. 116 and 117 audit reports. The Audit and Investigations Division has taken the checklist approach for its desk review of Single Audits.

**DESCRIPTION:** This document is intended as a guide for auditors applying the reporting requirements in a Single Audit as areas to be covered by a desk review and is designed to the extent possible to be a self contained document to support the results of a desk review.

All Questions in the checklist have been designed to show a “YES” or “N/A” (not applicable) answers as favorable responses. All unfavorable responses must be fully explained. It should be noted that unfavorable answers, “NO”, identify situations that could be undesirable, but do not necessarily imply that the report is unacceptable. The AID reviewer must exercise professional judgment when answering the questions and reaching specific and overall conclusions on the quality of the report. All questions should be addressed. (see **Checklist**)

**REFERENCE MATERIAL:** American Institute of Certified Public Accountants (AICPA), *Professional Standards, Generally Accepted Auditing Standards (GAAS), Government Auditing Standards*, revised may 1999 (GAS) issued by the Comptroller General of the United States, Office of Management and Budgets (OMB) *Circular A-133* revised June 24, 1997, *OBM Circular A-133 Compliance Supplement* revised May 1998 and *1999 Compliance Supplement*, Appendix B of OMB Circular A-133 revised September 1999, AICPA’s *Statement of Position (SOP) No. 98-3 (Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards*, revised March 17, 1998, *Statement of Auditing Standards (SAS) No. 87, Restricting the Use of an Auditor’s Report* issued September 1998, *SAS No. 74, Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Government Financial Assistance*, AICPA *Audit and Accounting Guide, Not-for-Profit Organizations* issued June 1, 1996, and Financial Accounting Standards Board (FASB) *Statement No. 116, Accounting for Contributions Received and Contributions Made*, and *Statement No. 117, Financial Statements for Not-for-Profit Organizations*, and exposure Draft *Uniform Initial Review Guide for A-133 Audits and Uniform Quality Control Review Guide for A-133 Audits* issued by the President’s Council on Integrity and Efficiency, February 1999.

The following Legend refers to the review status of each of the components that are detailed in the Single Audit reports as applied to CDE programs:

**REJECT** = Reject Audit Report

**MINOR** = Minor Deficiency, if in the aggregate could reject the audit report as a whole.

**QUALIFICATIONS AND INDEPENDENCE:**

**STATUS:**

- |    |  |               |
|----|--|---------------|
| 1. | Is the report free from indications that the auditor is not a CPA, a public accountant licensed on or before December 31, 1970, or a government auditor? (GAS 3.10)  | <b>REJECT</b> |
| 2. | Is the report free from indications that the auditor is not independent? If not, follow-up to determine if the independence was impaired in Appearance or in fact and describe the situation. (GAS 3.11 – 3.25, GAAS Guide page 3.04). | <b>REJECT</b> |

**AUDITOR'S REPORT ON FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

(AICPA's "Illustrative OMB Circular A-133 Report Examples" and SOP No. 98-3)

Fax Hotline: (201 938-3787

Internet Reference: [www.aicpa.org](http://www.aicpa.org)

**Independent Auditor's Report:**

The auditor's report on the financial statements must be prepared in accordance with *the Statement on Auditing Standards* (SAS) No. 58, Reports on Audited Financial Statements. Auditors may also refer to the AICPA Audit and Accounting Guide, *Not-For-Profit Organizations*, for additional guidance on reporting on the financial statements.

- |    |   |               |
|----|---|---------------|
| 3. | If the financial statements are intended to be presented in accordance with GAAP, does the audit report: (AU 508.08)  |               |
| a. | Cover all periods presented in the financial statements?  | <b>REJECT</b> |
| b. | Clearly identify the financial statements that were audited or make reference to the table of contents? (Note: If the not-for-profit organization is a voluntary health and welfare organization, the phrase, statements of activities and cash flows should be modified to state "...and the related statements of activities, functional expenses and cash flows...") | <b>REJECT</b> |
| c. | Make a statement that the financial statements are the responsibility of the entity's management and that the auditor's responsibility is to express an opinion on the financial statements based upon the audit?   | <b>MINOR</b>  |

**STATUS:**

3. d. State that the audit was conducted in accordance with GAAS and GAS (AU 110.01). The standards applicable to financial statement audits include the general, fieldwork, and reporting standards described in Chapters 3, 4 and 5 of *Government Auditing Standards*. (Note: If the schedule of expenditures Of State and Federal awards is not presented with the financial Statements, but appears in a separately issued single audit Package, only GAAS need be referenced in the report on the Financial statements. In this situation the required reporting On the schedule is incorporated into the combined compliance And internal control report on major programs in accordance With OMB Circular A-133).
- e. Include a statement that those standards (GAAS and Gas) requires that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement?

**ONE OUT  
OF TWO,  
OK; BOTH  
MISSING  
REJECT**

**MINOR**

**ERRORS, IRREGULARITIES, AND ILLEGAL ACTS**

“The auditor should design the audit to provide reasonable assurance of detecting errors, irregularities, and illegal acts that are material to the financial statements. The auditor should be aware of the possibility of illegal acts that could have an indirect but material effect on financial statements. (Government Auditing Standards – 1999 Revision, published by the United States General Accounting Office).

Auditors should exercise due professional care in pursuing indications of possible irregularities and illegal acts so as not to interfere with potential future investigations, legal proceedings, or both. When appropriate, the auditor should consult with legal counsel and/or the applicable law enforcement or investigative authorities before expanding the audit steps and procedures. All errors, irregularities, or illegal acts or indications of such acts, whether material or not, the auditors become aware of, should normally be covered in a separate written Report. Auditors should not release reports containing information on such acts until they consult with legal counsel.

In fulfilling the requirements above that relate to errors, irregularities, and illegal acts, the auditor should follow the guidelines contained in SAS No. 53, The Auditor’s Responsibility to Detect and Report Errors and Irregularities, and SAS No. 54, Illegal Acts by Clients and Government Auditing Standards, 1994 revision.

**CONSIDERATION OF FRAUD IN FINANCIAL STATEMENT AUDITS**

In an attempt to clarify the auditor’s position on fraud, the AICPA has issued SAS 82 with an effective date for all audits of periods ending on or after December 15, 1997. There is no real change in the auditor’s responsibility under SAS 82 other than that established under its predecessor, SAS 53. AICPA finally dropped the term “irregularity” for the more common term of “fraud”.

The most significant change in SAS 82 is the requirement by the auditor to document his or her assessment of the risk of material misstatement due to fraud and to identify the additional steps to be performed in response.

**STATUS:**

- |    |    |  |   |
|----|----|--|---|
| 3. | f. | Include a statement that the audit includes: examining on a test basis, evidence, supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation?  | <b>MINOR IF ONLY PART MISSING</b>           |
|    | g. | Make a statement that the auditor believes that the audit provides a reasonable basis for an opinion?  | <b>MINOR</b>                                |
|    | h. | Contain a paragraph preceding the opinion paragraph stating that the audit report makes reference to a note financial statements describing a change in the entity's accounting principles and its methods of financial reporting and financial statement presentation for contributions in accordance with the entity's adoption of FASB's Statement Nos. 116 and 117 (only applicable to the <b>first</b> year of adoption)? | <b>REJECT, IF FIRST YEAR</b>                |
|    | i. | Contain an opinion on whether the financial statements presents fairly, in all fairly, in all material respects, the financial position of the entity as of the statement of financial position date; and the results of its operations and changes in its net assets and its cash flows for the period ended in conformity with GAAP; or an assertion that an opinion cannot be rendered?                                     | <b>REJECT, CASH FLOW MAY BE IF IN SCOPE</b> |

*SAS69, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles in the Independent Auditor's Report*, was issued to explain the meaning of the phrase "present...in conformity with generally accepted accounting principles" in the independent auditor's report.

The auditor's opinion that financial statements present fairly an entity's financial position, results of operations, and cash flows in conformity with generally accepted accounting principles should be based on his or her judgment as to whether: (a) the accounting principles selected and applied have general acceptance; (b) the accounting principles are appropriate in the circumstances; (c) the financial statements, including the related notes, are informative of matters that may affect their use, understanding, and interpretation (see AU sec. 431); (d) the information presented in the financial statements is classified and summarized in a reasonable manner, that is, it is neither too detailed nor too condensed (see AU sec. 431); and (e) the financial statements reflect the underlying transactions and events in a manner that presents the financial position, results of operations, and cash flows stated within a range of acceptable limits, that is, limits that are reasonable and practicable to attain in financial statements.

If unqualified opinion cannot be expressed, the nature of the **qualified, disclaimer** or **adverse** opinion must be clearly presented in a separate explanatory paragraph in accordance with the American Institute of Certified Public Accountant's (AICPA) standards of reporting?

**REJECT**

3. i. GOING CONCERN

SAS 59, The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern, supersedes SAS 34 effective for audits of financial statements for periods beginning on or after January 1, 1989 and SAS 64, Omnibus Statement on Auditing Standards – 1990 The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern, supersedes SAS 59, AICPA, Professional Standards, vol. 1, AU sec. 341.12 and 13, supersedes SAS 58, AICPA, Professional Standards, vol. 1, AU sec. 508.83, effective for reports Issued after December 31, 1990..

SAS 59 deals with the auditor's responsibilities and considerations when questions arise concerning an organization's ability to meet its obligations as they become due without substantial disposal of assets, restructuring of debt, externally forced revision of its operations, or similar actions. The ability to meet payment obligations as they become due is the key concept that causes SAS 59 to be applicable. However, SAS 59 does not require the auditor to actively search for evidence regarding the likelihood of an entity's continued existence because, in the absence of information to the contrary, an entity's continuation is usually assumed. Nevertheless, auditors are required to consider contrary information that may affect continued existence should such evidence come to their attention during the course of their engagement. Many required and/or professionally prudent audit procedures are likely to identify information of this nature. Examples are:

1. Analysis of:
  - a) Financial statements;
  - b) Lease commitments;
  - c) Pension liabilities;
  - d) Other debt repayment requirements;
2. Review of subsequent events; and
3. Analytical review.

Other indicators of financial distress that may come to the auditor's attention during the engagement include.

5. Borrowing cash from restricted resources;
6. Persistent decline in enrollment;
7. Steady increase of deficits in net assets; and
4. Material borrowing from lending institutions.

When an auditor becomes aware of any contrary information, it should be analyzed along with any mitigating factors and management plans for addressing the problems.

Examples of mitigating factors include:

1. Long-range plans;
2. Reduction or deferral of expenses;
3. Strong financial management; and
4. Fund raising activities.

**STATUS:**

3. i. The auditor should evaluate existing mitigating factors and management plans for their realistic anticipated effect on contrary conditions. If the auditor concludes that the mitigating factors and management plans are inadequate to deal with the impending problem, a substantial doubt would be remain as to the agency's ability to continue in existence. In such cases, the auditor should consider the recoverability and classification of assets, and the amounts and classification of liabilities. The audit report should include an explanatory paragraph (following the opinion paragraph) to reflect the conclusion that there is uncertainty about the agency's ability to continue as a going concern for a reasonable period of time. SAS 59 indicates that an auditor should consider the need for, as well as the adequacy of, disclosures of the principal conditions that raise questions about the agency's ability to continue to exist.

SAS 64 clarifies required language that the auditor should include in an explanatory paragraph that describes his or her substantial doubt about an entity's continuation as a going concern.

- j) a paragraph following the opinion paragraph referencing the auditor's combined report on its consideration of the entity's internal control over financial reporting and the auditor's tests of the entity's compliance with certain provisions of the law, regulations, contracts and grants: stating in accordance with GAS; and the date of the combined report?
- k) identify the schedule of supplementary information accompanying the financial statements includes an opinion as to whether the schedule of expenditures of State and Federal awards is present fairly, in all material respects in relation to the basic financial statements taken as a whole? (Notes: 1). The auditor should consider the effect of any modifications to the report on the basic financial statements when reporting on the schedule. If the report on the schedule is other than unqualified, this paragraph should be modified in accordance with the guidance described in SAS No. 29, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents* (AICPA, Professional Standards, vol. 1, AU sec. 551, paragraphs 551.09-.111 and 551.13-.14). 2). This paragraph should be deleted if the schedule of expenditures of State and Federal awards is not presented with the financial statements, but appears in a separately issued single audit package. In this situation the required reporting on the schedule is incorporated into the combined compliance and internal control report on major programs in accordance with the Revised OMB Circular A-133).

**REJECT**



3. k. (continued)

**STATUS:**

Does the supplementary information paragraph of the auditor's report, or included in a separate single audit package, on the schedule of expenditures of federal and state awards:

- |      |   |  |
|------|---|--|
| i.   | Include a statement that the auditor has audited the financial Statements and a reference to the auditor's report?  | <b>REJECT</b>                                |
| ii.  | Identify the additional information accompanying the financial statements? (This paragraph must either identify either the schedule, or reference the page on which the schedule is located).<br><b>Note:</b> AFRC = Audited Final Reimbursement Calculation. | <b>REJECT,<br/>MUST<br/>COVER<br/>AFRC'S</b> |
| iii. | clearly describe the auditor's examination and responsibilities related responsibilities related to the <u>Schedule of Expenditures and Federal and State Awards</u> ?  | <b>REJECT</b>                                |
| iv.  | Include a statement that the accompanying schedule of Expenditures of federal and state awards is presented for Additional analysis as required by OMB Circular A-133 and GAS?  | <b>REJECT</b>                                |
| v.   | Include either an opinion on whether the schedule is fairly stated, in all fairly stated, in all material respects, in relation to the financial statements taken as a whole?   | <b>REJECT</b>                                |

l. Does the combined supplementary information paragraph, or additional paragraph, On the state's supplementary schedules and information:

- |      |  |   |
|------|--|---|
| i.   | Include a statement that the auditor has audited the financial statements and a reference to the auditor's report?   | <b>REJECT</b>                               |
| ii.  | Identify the additional information accompanying the financial statements? (This paragraph must either identify the supplementary schedules and information, or reference the page(s) on which this additional information is located).  | <b>REJECT<br/>MUST<br/>COVER<br/>AFRC's</b> |
| iii. | Clearly describe the auditor's examination and responsibilities related to the additional information?   |   |
| iv.  | Include a statement that the accompanying additional information is presented as California Department of Education's (CDE) (state requirements) supplementary information for additional analysis in accordance with the <u>Audit Guide for Audits of Child Development, Nutrition, Adult Basic Education Programs</u> issued by the CDE? | <b>REJECT<br/>LEAST</b>                     |
| v.   | Include either an opinion on whether the additional information is fairly stated, in all material respects, in relation to the financial statements taken as a whole?  | <b>REJECT</b>                               |

**STATUS:**

- m. Includes the manual or printed signature of the auditor's name or firm and the date of the audit report?

**REJECT**

## AICP's Illustrative Example

### Auditor' Letterhead

#### Independent Auditor's Report<sup>1</sup>

Board of Directors  
XYZ Child Development, Inc.

We have audited the accompanying statement of financial position of **XYZ Child Development, Inc.**, as of June 30, 19X9, and the related statements of activities and cash flows<sup>2</sup> for the year then ended. These financial statements are the responsibility of **XYZ Child Development, Inc.'s** management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and **Government Auditing Standards**<sup>3</sup> issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes assessing, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **XYZ Child Development, Inc.**, as of June 30, 19X9 and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated [date of report] on our consideration of **XYZ Child Development, Inc.'s** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of XYZ Child Development, Inc., taken as a whole. The accompanying Schedule of Expenditures of Federal and State Awards (Page A-26) and supplementary information is presented on pages A-23 to A-70 inclusive, for purposes of additional analysis as required by U.S. Office Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the Audit Guide for Audits of Child Development, Nutrition

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<sup>1</sup> Auditors may refer to the AICPA Audit and Accounting Guide, *Not-For-Profit Organization*, for additional guidance on reporting on the financial statements of a *Not-For-Profit Organization* and statement of position (SOP) No. 98-3.

<sup>2</sup> If the *Not-For-Profit organization* is a voluntary health and welfare organization, this phrase should be modified to state "...and the related statements of activities, functional expenses and cash flows..."

<sup>3</sup> The Standards applicable to financial audits include the general, field work, and reporting standards described in chapters 3, 4, and 5 of **Government Auditing Standards**.

4. When reporting on supplementary information, the auditor should consider the effect of any modifications to the report on the basic financial statements. Further, if the report on supplementary information is other than unqualified, this paragraph should be modified. Guidance for reporting these circumstances in described in SAS No. 29, Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents (AICPA, Professional Standards, Vol.1, AU sec 511, paragraphs 551.13-14).
5. This paragraph should be deleted if the schedule of expenditures of federal awards is not presented with the financial statements (i.e., a separate single audit package is issued). In such circumstance, the required reporting on the schedule may be incorporated in the report issued to meet the requirements of the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. See footnote 29, and example 3a, and footnote 34 for additional guidance.
6. If reporting on additional supplementary information (i.e., combining financial statements and schedules), this paragraph should be modified to describe the additional supplementary information. SAS No. 29 (AICPA, Professional Standards, vol, 1, AU sec. 551), provides useful guidance.

and Adult Basic Education Programs issued by the California Department of Education, is not a required part of the basic financial statements. audit of the basic financial statements and in our opinion, is fairly presented in all material respects, in relation to the basic financial statements taken as a whole.<sup>4 5 6</sup>

[Signature]

August 15, 19X9

4. If the financial statements are intended to be presented in accordance with another comprehensive basis of accounting does the audit report include 3.a – 3.g (from above) and the following: (AU 623.05) **STATUS**
- a. Include a separate explanatory paragraph which states the basis of presentation and refers to the note to the financial statements that describes the basis and states that the basis of presentation is a comprehensive basis of accounting other than GAAP? **REJECT**
- b. Contain an opinion (or disclaims an opinion) on whether the financial statements are presented fairly, in all material respects, in accordance with the basis of accounting described? **REJECT**
- c. Include the manual or printed signature of the auditor's firm/name and the date of the audit report? **REJECT**
5. If the auditor makes reference to the work of another auditor:
- a. Does the report indicate the division of responsibility and the magnitude of the portion of the financial statements audited by the other auditor? (AU 508.12 – 508.13, 543-07) **REJECT**
- b. If the other auditor is named, is the other auditor's report included with that of the principal auditor? (AU 543.07) **REJECT**
6. If a modified report was issued to a scope limitation:
- a. Does the report include an explanatory paragraph that precedes the opinion paragraph and is referred to in both the scope and opinion paragraphs? (AU 508.43) **REJECT**
- b. Does the opinion paragraph indicate that the qualification pertains to the possible effect on the financial statements and not to scope limitations itself (i.e., the qualification is because the auditor is unable to reach a conclusion on one or more matters material to the financial statements, rather than because his or her procedures were restricted? (AU 508.44) **REJECT**
- c. If the scope restriction is client-imposed, was disclaimer of opinion issued? (AU 508.42) **REJECT**

**STATUS**

7. If a qualified opinion was issued due to a departure from GAAP, does the report include an explanatory paragraph that precedes the opinion paragraph and that describes or refers to a footnote that describes: (AU 508.49)
- a. All substantive reasons that led to conclusion that there has been a departure GAAP? **REJECT**
  - b. The principal effects of the subject matter of the qualification of the financial position, results of operations and changes in net assets and cash flows, or a statement that the effects are not reasonably determinable? **REJECT**
8. If an adverse opinion is issued, does the report include a separate explanatory paragraph that precedes the opinion paragraph and describes: (AU 508.68)
- a. All substantive reasons for the adverse opinion. **REJECT**
  - b. The principal effects of the subject matter of the adverse opinion, the financial position, results of operations and changes in net assets and cash flows, or a statement that the effects are not reasonably determinable? **REJECT**
9. If a disclaimer of opinion is issued does the report: (AU 508.71 and 508.72)
- a. State the reasons why the audit did not comply with GAAS. (Note: if the reasons have an effect on Federal Awards, identify the reasons and their effect) **REJECT**
  - b. Omit a description of the procedures performed and the characteristics of an audit? **REJECT**
  - c. State that “We were engaged to audit” rather than “We have audited”? **REJECT**
  - d. State the scope of the work was not sufficient to warrant the expression of an opinion? **REJECT**

## **FINANCIAL STATEMENTS**

### **(Appendix A1)**

In order to adhere to GAAP applicable to Not-For-Profit Organizations, the annual reporting provisions delineated in Statement of Financial Accounting Standards FASB No. 117, “Financial Statements of Not-For-Profit Organizations, was used for these reporting requirements. FASB Statement No. 117 was adopted as the standard for general-purpose external financial statements provided by Not-For-Profit Organization. FASB Statement No. 117 defines a complete set of financial statements of a Not-For-Profit Organization to include a statement of financial position as of the end of the reporting period, a statement of activities and a statement of cash flows for the reporting period, and the accompanying notes to financial statements. The primary purpose of the financial statements is to provide relevant information to meet the common interests of donors, members, creditors, and other who provide resources to Not-For-Profit Organizations. FASB Statement No. 117 is effective for annual financial statements issued for fiscal years beginning after December 15, 1994, except for organizations with less than \$5 million in total assets and less than \$1 million in annual expenses. For organizations with less than \$5 million in total assets and less than \$1 million in annual expenses, the effective date is for annual financial statements issued for fiscal years beginning after December 15, 1995. Depending on the number of programs, size and purpose of the organization, combining statements may also be required to properly disclose the financial activity and status of the organization. The following statements are required for all Not-For Profit Organizations.

### **STATUS**

10. If the financial statements are presented in conformity with GAAP and FASB Statement Nos. 116 and 117, are the following statements included: (if combining statements Are presented be sure figures reconcile to the combined statements)

- a. Statement of Financial Position (CACFP cash advance?)

**REJECT**

The Statement of Financial Position should summarize the assets, liabilities, and net assets of the organization. The primary purpose of a statement of financial position is to provide relevant information about an organization’s assets, liabilities, and net assets and about their relationships to each other at a moment in time. The information provided in the statement of financial position, used with related disclosures and information in the other financial statements should allow users to assess: the organization’s ability to continue to provide services, the organization’s liquidity, financial flexibility, ability to meet obligations, and needs for external financing. The statement of financial position shall focus on the organization as a whole and shall report the amounts of its total assets, liabilities and net assets.

The net assets of an organization is comprised of the unrestricted, temporarily restricted and the permanently restricted net assets. FASB Statement No. 116 “Accounting for Contributions Received and Contributions Made” provides the authoritative guidance on determining whether contributions received are restricted or unrestricted. The definition of unrestricted and restricted net assets are described below based upon FASB Statement Nos. 116 & 117. Unrestricted net assets are neither permanently restricted by donor-imposed stipulations. Temporarily restricted net assets are the result of contributions and other inflows of assets whose use by the organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the organization pursuant to those stipulations, from other asset enhancements and diminishments subject to the same kinds of stipulations, and from reclassifications to (or from) other classes of net assets as a consequence

**STATUS**

10. a. Statement of Financial Position (CACFP Cash Advance?) (continued)

of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the organization pursuant to those stipulations. Permanently restricted net assets result from contributions and other inflows of assets whose use by the organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the organization, from other asset enhancements and diminishments subject to the same kinds of stipulations and from reclassifications from (or to ) other classes of net assets as a consequence of donor-imposed stipulations.

While FASB Statement No. 117 focuses on the entity as a whole, the CDE wants to be able to analyze the operations of the CDD programs. For this reason, agencies are required to use a separate fund to account for CDD programs. These funds should be reported as temporarily restricted when received and reclassified to unrestricted as the organization satisfies the donor-imposed restrictions. The cash received for CDD programs is restricted used to pay for allowable CDD program costs. The notes to the financial position should identify the amount of fixed assets purchased with CDD revenue. The CACFP may have its own separate fund or it may be combined with the CDD fund.

b. Statement of Activities

**REJECT**

FASB Statement No. 117 identifies the Statement of Activities as the financial statement to report the amount of change in net assets for the period and that shall focus on the organization as a whole. The primary purposes of the statement of activities is to provide relevant information about the effects of transactions and other events and circumstances that change the amount and nature of net assets, the relationships of those transactions and other events and circumstances to each other, and how the organization's resources are used in providing various programs or services.

The statement of activities shall report revenues as increases in unrestricted net assets unless the use of the assets received is limited by donor-imposed restrictions and shall report expenses as decreases in unrestricted net assets. Pursuant to FASB Statement No. 116, Accounting for Contributions Received and Contributions Made, in the absence of a donor's explicit stipulations or circumstances surrounding the receipt of the contribution, contributions are reported as unrestricted support. Donor-restricted contributions are reported as restricted revenues which increase either temporarily or permanently restricted net assets. Donor-restricted contributions whose restrictions are met in the same period received, may be reported as unrestricted support provided it is done consistently and this policy is disclosed in its accounting policy footnote.

The statement of activities shall report the amount of change in net assets for the period. Expirations of donor-imposed restrictions, that simultaneously increase one class of net assets and decrease another (reclassification) shall be reported as separate items. The statement of activities shall the gross revenues and expenses. However, exceptions are allowed for investment revenues to be reported as net, as long as the investment expenses are disclosed in the notes or on the face of the statement. Gains and losses from peripheral or incidental transactions or from other events beyond the organization's control may be reported as net amounts.

**STATUS:**



The organization's statement of activities or notes to financial statements shall provide information about expenses reported by their functional classification such as major classes of program services and supporting activities. Voluntary health and welfare organizations shall report that information as well as information about expenses by their natural classifications, such as salaries, rent, utilities, etc., in a matrix format in a separate financial statement entitled, Statement of Functional Expenses. The organization should also consider disclosing information about the organization's major programs and the relationship between program revenues and expenses. This information and other non-monetary information may be reported as supplemental information.

c. Statement of Functional Expenses (for voluntary health and welfare organizations only) **REJECT**

d. Statement of Cash Flows **REJECT**

### **STATEMENT OF CASH FLOWS**

FASB Statement No. 117 amends FASB Statement No. 95 to require a statement of cash flows as part of a full set of financial statements for all business enterprises and not-for-profit organizations FASB Statement No. 117 is effective for fiscal years beginning after December 15, 1994 with the exception previously discussed. Although the statement of cash flows is generally not required for nonprofit institutions before the effective date of FASB Statement No. 117, CDE requires presentation of this statement in all audits. CDE prefers the Indirect Method over the Direct Method but FASB statement No. 117 states that either method may be used by the auditor.

1. The statement of cash flows shall:
  - i) Explain the change during the period in cash equivalents; and
  - ii.) Classify cash receipts and cash payments as resulting from investing, financing, or operating activities.
2. The content and form of the statement of cash flows is as follows:
  - i. A statement of cash flows for a period shall report net cash provided or used by operating, investing, financing, and the net effect of these flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents; and
  - ii. In reporting cash flows from operating activities, entities are encouraged to report major classes of gross cash receipts and gross cash payments and their arithmetic sum, the net cash flow from operating activities (the direct method).
3. Enterprises that do not choose to use the direct method of preparation for the statement of cash flows shall determine and report the same amount of net cash flows from operating activities indirectly by adjusting the change in net assets to reconcile it to net flow from operating activities;
4. Reconciliation of change in net assets to net cash flow from operating activities shall be provided regardless of whether the direct or indirect method is used.
5. Disclosures of investing and financing activities, no resulting in cash receipts or cash payments during the period, shall be provided separately.

10.e. **CHILD DEVELOPMENT FUND AND NSD**  
**SUPPLEMENTARY SCHEDULES:**

**STATUS:**

In order to adhere to GAAP applicable to governmental entities, the annual financial reporting provision delineated in the Codification of Governmental Accounting and Financial Reporting Standards published by the Governmental Accounting Standards Board (GASB) was used for these reporting requirements.

Specifically the audit reporting for governmental entities is found in **SECTION 600** and **Appendix 3A** for Cities and Counties.

1 **COMBINING STATEMENT OF FINANCIAL POSITON**

**REJECT, IF  
MORE THAN  
ONE FUND**

- i.) A Combining Statement of Financial Position – All Fund Types and Account Groups:
- ii.) A Combining Statement of Financial Position of all funds of each fund type in which the entity has more than one fund.

**Note:** All CDP funds representing each contract and grant should be combined as the Child Development Fund type in a single column. The assets, liabilities and Net Assets are not longer required to be presented as combining CDP funds. However, the totals for assets liabilities and net assets of the Child Development Fund must agree with the combined Statement of Financial Position in Section 511: and

- iii.) Individual Statement of Financial Position for each fund and account group where necessary to present the financial position of each fund and account group and schedules necessary to demonstrate compliance with finance related legal and contractual provisions.

2. **COMBINING STATEMENT OF ACTIVITIES**

**REJECT**

Governmental Fund:

- i). A combining Statement of Activities for Support, Revenue and Expenditures – All Governmental fund Types and Expendable Trust Funds;
- ii.) A combining Statement of Revenues, Expenditures, and Changes in fund Balances – budget and Actual – General and Special Revenue Fund Types (and similar governmental fund types for which annual budgets have been legally adopted);
- iii.) A Combining Statements of Governmental Fund Revenues, Expenditures, and changes in Fund Balances by fund type; and
- iv.) Individual statements of Activities-support, revenues and expenditures for each Fund where necessary to present fund operating results, and schedules necessary to Demonstrate compliance with finance related legal and contractual provisions.

2. **COMBINING STATEMENT OF ACTIVITIES** (continued)

**REJECT**

- iii). A Combining Statements of Governmental fund Revenues, Expenditures, and changes in Fund Balances by fund type; and
- iv). Individual statements of Activities-support, revenues and expenditures for each fund where necessary to present fund operating results, and schedules necessary to demonstrate compliance with finance related legal and contractual provisions.

**Proprietary Funds:**

- i). A combined Statement of Revenues, Expenses, and Changes in Retained Earnings (or Equity) – All Proprietary Funds Types:
- ii). A Combined Statement of Changes in Financial Position – All Proprietary funds Types:
- iii). A Combining Statement of Proprietary Fund Revenues, Expenses, and Changes in Retained Earning (or Equity) by Type;
- iv). A Combined Statement of Proprietary Fund changes in Financial Position by fund type; and
- v). Individual statements of revenues, expenditures, and changes in retained earnings (or equity) and statements of changes in financial position for each proprietary fund.

**Fiduciary Funds:**

- i). Expendable trust funds are similar to governmental funds (modified accrual basis) and should have similar statements presented. Non-expendable trust and pension trust funds are similar to proprietary funds (accrual basis) and should have similar statements presented;
- ii). At the General Purpose Financial Statements level, trust fund operating statements may be presented separately or within the combined operating statements of the governmental funds or the proprietary funds, as appropriate; and
- iii). A Combining Statement of changes in Assets and Liabilities – All Agency Funds.

**Account Groups:**

- i). A Statement of Changes in General Fixed Assets; and
- ii). A Statement of Changes in General Long-term Debt.

**STATUS:**

- |   |               |
|---|---------------|
| 4. <b><u>COMBINING STATEMENT OF CHANGES IN NET ASSETS</u></b>             | <b>REJECT</b> |
| 5. <b><u>COMBINING STATEMENT OF EXPENDITURES BY STATE CATEGORIES</u></b>  | <b>REJECT</b> |
| 5. <b><u>COMBINING SCHEDULE OF EQUIPMENT EXPENDITURES</u></b>             | <b>MINOR</b>  |
| 6. <b><u>COMBINING SCHEDULE OF REPAIR AND RENOVATION EXPENDITURES</u></b> | <b>MINOR</b>  |
| 7. <b><u>COMBINING SCHEDULE OF ADMINISTRATIVE EXPENSE (CDD)</u></b>       | <b>REJECT</b> |
- f. Reconciliation of Child Development Fund income and expenditures to the financial statements, as follows;
- |   |               |
|---|---------------|
| 1. <b><u>Reconciliation of the Combining Schedule of Expenditures by State Categories to the Statement of Activities</u></b>  | <b>REJECT</b> |
| 2. <b><u>Reconciliation of the Combining Schedule of Expenditures by State Categories to the Statement of Function Expenses</u></b> (for voluntary health and welfare organizations only) | <b>REJECT</b> |
| 3. <b><u>Reconciliation of Child Development Fund Financial Statements to the Single/Organization-wide Audit Report with different Fiscal Year End</u></b>                                | <b>REJECT</b> |
- 
- |   |   |
|---|---|
| 11. Do interfund receivable equal interfund payables? Are Federal funds or payable or receivable from other funds of the agency?<br>Do they appear to be appropriate? | <b>MINOR, UNLESS<br/>DIFFERENCE IS<br/>EXTREMELY<br/>LARGE</b>    |
| 12. If the financial statements are presented in conformity with a comprehensive basis other than GAAP, are the statements suitably titled?                           | <b>REJECT, MAY GO<br/>MINOR IF ONLY<br/>PROBLEM IN<br/>REPORT</b> |

**NOTES TO THE FINANCIAL STATEMENTS**

The notes to the financial statements shall include all notes that are essential to assure a fair presentation and adequate disclosure of the financial position and operating results of nonprofit or governmental institutions. Non profit institutions shall adhere to the note disclosure requirements as identified in FASB Statements No. 116 & 117 and other authoritative pronouncements

- |   |                                    |
|---|------------------------------------|
| 13. Do the notes provide a description of the reporting entity, all activities, organizations, or have functions related to the entity been identified?<br>(Does it appear the entire agency has been included in the audit?) | <b>REJECT MOST<br/>OF THE TIME</b> |
|---|------------------------------------|

## **NOTES TO THE FINANCIAL STATEMENTS**

## **STATUS:**

14. Do the notes adequately disclose the accounting treatment for the following:  
(Materiality is a factor in determining if necessary for adequate disclosure)

**REJECT ON  
MATERIAL  
MISSING  
NOTES  
ONLY**

The notes which are essential to a fair presentation of the financial statements include but are not limited to:

- Description of the reporting entity;
- Summary of significant accounting policies;
- Entity's adoption of FASB's Statement Nos. 116 & 117, if still applicable;
- Valuation of promises to give/receive in future periods;
- Schedule of present value(s) and recoveries of multi-year contributions under FASB 117 reporting;
- Significant contingent liabilities;
- Significant effect of subsequent events;
- Interfund receivables and payables;
- Depreciation method;
- Amount(s) due to child care providers;
- Food subsidy advance;
- Deferred revenue;
- Accumulated unpaid employee benefits such as vacation and sick leave;
- Pension obligations;
- Payroll taxes;
- Reserves (Education Finance Division requirement);
- Prior period adjustments and accounting changes;
- Net asset balance by restricted, temporarily restricted, and unrestricted individual fun;
- Deficit net assets of individual funds on the combining statements, including an adequate note describing what caused the deficit and how the agency intends to eliminate the deficit;
- Donate services and pledged assets;
- Commitments under capital and operating leases;
- Related party transactions;
- Fundraising activities;
- Indirect cost allocation; joint fund raising cost allocation;
- Pledged assets;
- Investments and trust;
- Valuation, income, gains and losses of equity investments;
- Encumbrances outstanding;
- Audit fees;

## **NOTES TO THE FINANCIAL STATEMENTS**

- Rent;
- Going-concern problem;
- Due to /due from other programs;
- Interest earned in subsequent periods for unexpended apportionments;
- Property, plant and equipment;
- Accounts receivable
- Long-term debt; and
- Y2K compliance

**REPORT ON SCHEDULE OF EXPENDITURES OF STATE AND  
FEDERAL AWARDS (Rescinded)**

**STATUS:**

When the schedule of expenditures of State and Federal awards is not presented with the financial statements, but appears in a separately issued single audit package, the required reporting on the schedule is incorporated into the combined compliance and internal control report on major programs in accordance with the OMB Circular A-133.

**SEE 18 O.4**

**SCHEDULE OF EXPENDITURES OF STATE AND FEDERAL AWARDS**

OMB Circular A-133 and AID require an auditor's report on the schedule of expenditures of state and federal awards.

- i). When the schedule of expenditures of Federal awards is not presented with the financial statements, but appears in a separately issued single audit package, the required reporting on the schedule is incorporated into the combined compliance and internal control report on major programs in accordance with OMB Circular A-133.
- ii). Identify the additional information accompanying the financial statements (This paragraph must either identify the schedule, or reference the page on which the schedule is located).
- iii). Clearly describe the auditor's examination and responsibilities related to the Schedule of Expenditures of Federal Awards.
- iv). A statement that the accompanying schedule of expenditures of federal awards is presented for additional analysis is required by OMB Circular A-133 and GAS and is not a required part of the financial statements.
- v). An opinion on whether the schedule is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

15. Does the schedule of expenditures of State and Federal awards identify: (*SOP 98-3 Appendix C, OMB Circular A-133*)

- a. Type A and Type B Federal programs and their dollar thresholds used to the schedule of findings and questioned costs in 19.a2.vi-vii)? **REJECT**
- b. Type A and Type B Federal programs by Catalog of Federal Domestic Assistance number and State contract number/agreement number (or make reference to the schedule of findings and questioned costs in 19.a.2.vi-vii)? **REJECT**
- c. Total expenditures for each State and Federal award program? **REJECT**
- d. Include notes that describe the significant accounting policies used in preparing the schedule? **REJECT**
- e. Pass-through entities identify in their schedule how much of their federal awards is passed through to sub-recipients from each program that is audited as major? **REJECT**

- |     |   |               |
|-----|---|---------------|
| 15  | Does the schedule of expenditures of State and Federal awards identify: (continued)<br>(SOP 98-3 Appendix C, OMB Circular A-133)  | <b>REJECT</b> |
|     | f. All non-cash awards are identified:  | <b>REJECT</b> |
| 16. | Are all State and Federal award programs known by the reviewer to have received and those identified elsewhere in the report included in the schedule? (R&R Gain, <b>Commodities</b> Distributed, etc.) | <b>REJECT</b> |

**REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS** (AU 801.21-22, AU 801.37, GAS 517-19)

Both AICPA standards and GAS required an assessment of control risk as part of the audit. The assessment of control risk establishes a basis for determining the extent to which auditing procedures are to be performed, and it is an intermediate step in forming an opinion on the financial statements. An auditor's report on this assessment is required for all audits.

The auditor should identify the occurrences of noncompliance with federal, state, or local laws and regulations that are material in relation to the general purpose or basic financial statements, and should state that the purpose is not to express an opinion, and accordingly no opinion is expressed. The report should disclose any instances of noncompliance or a statement that the tests disclosed non instances of noncompliance that are required to be reported under GAS.

- |     |   |   |
|-----|---|---|
| 17. | Does the report on compliance and internal control structure over financial reporting in accordance with GAS contain the following: (AU 801.37, GAS 5.17, 5.18, 5.19, 5.20 and 5.28, and AICPA's " <i>Illustrative OMB Circular A0133 Report Examples</i> " guide and SOP 98-3, Appendix D)   |   |
| a.  | a statement that the auditor has audited the financial statements and a reference to the auditor's report thereon?  | <b>REJECT</b>   |
| b.  | a statement that the audit was conducted in accordance with GAAS and GAS?   | <b>MUST<br/>HAVE AT<br/>LEAST ONE,<br/>REJECT IF<br/>NONE</b> |
| c.  | if there is any departure from the standard, unqualified report, does the auditor describe the nature of the departure? (e.g., qualified opinion, modification as to consistency due to change in accounting principle, reference to the report of other auditors, etc.)  | <b>REJECT</b>   |
| d.  | a statement that, as part of obtaining reasonable assurance about whether the financial statements are free from material misstatement, the auditor performed tests of compliance with certain provisions of the laws, regulations, contracts, and grants and the noncompliance with which could have a direct and material effect on the determination of financial statement amounts? | <b>REJECT</b>   |
| e.  | a statement that the auditor's objective was not to provide an opinion on compliance with such provisions?  | <b>MINOR</b>  |

17. Compliance (continued)

**STATUS:**

- |    |   |               |
|----|---|---------------|
| f. | a statement of positive assurance that the results of the tests disclosed no instances of noncompliance that are required to be reported under GAS? <sup>7</sup>  | <b>REJECT</b> |
| g. | a statement that, in planning and performing the audit of the financial statements, the auditor considered the entity's internal control over financial reporting in order to determine the auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting? | <b>REJECT</b> |
| h. | If <u>NO</u> reportable conditions <u>were noted</u> does the report include each of the following:   |               |
| 1. | a statement that the auditor's consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal controls over financial reporting that might be material weaknesses under standards established by the AICPA?,   | <b>REJECT</b> |
| 2. | the definition of a material weakness?., and  | <b>REJECT</b> |
| 3. | a statement that the auditor noted no matters involving the internal control over financial reporting and its operation that the auditor considered to be a material weaknesses <sup>8</sup> as defined above?  | <b>REJECT</b> |
| i. | if reportable conditions <u>were noted</u> does the report include each of the following:   |               |
| 1. | the definition of a reportable condition?,  | <b>REJECT</b> |
| 2. | a reference to the accompanying schedule of findings and questioned costs describing the reportable conditions(s) noted?,   | <b>REJECT</b> |
| 3. | the definition of a material weakness?, and   | <b>REJECT</b> |
| 4. | a statement about whether the auditor believes any of the reportable conditions are material weaknesses?  | <b>REJECT</b> |

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<sup>7</sup> If the auditor has issued a separate management letter to communicate matters that do not meet the criteria for reporting in paragraph 5.18 of GAS, this paragraph should be modified to include a statement such as the following: *However, we noted certain immaterial instances of noncompliance that we have reported to management of Example Entity in a separate letter dated August 15, 19X1.*

This reference to management is intended to be consistent with GAS, chapter 5, paragraph 5.20, which indicates that communication to "top" management should be referred to:

Or

*The results of our test disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying schedule of findings and questioned costs as items [List related finding reference numbers=]*

<sup>8</sup> If the auditor issued a management letter to communicate other matters involving the design and operation of the internal control over financial reporting, this paragraph should be modified to include a statement such as the following:

*However, I noted other matters involving the internal control over financial reporting that I have reported to management of Example Entity in a separate letter dated August 15, 19X1.*

This reference to management is intended to be consistent with GAS, chapter 5, paragraph 5.28, which indicates that communications to "top" management should be referred to.



17. Internal Control Over Financial Reporting (continued)

**STATUS:**

- j. if the reportable conditions noted are considered to be material weaknesses does the report:

identify which reportable condition(s) are material weakness(es) in the accompanying schedule of findings and questioned costs<sup>9</sup>?

**REJECT**

- k. a statement that the report is intended for the information of the audit committee management and federal awarding agencies and pass-through entities<sup>10</sup> and is not intended to be and should not be used by anyone other than those specified parties<sup>11</sup>? (SAS No. 87)

**MINOR**

- l. includes the manual or printed signature of the auditor's name or form and the date of the audit report?

**REJECT**

Auditors must communicate to the audit committee or it's equivalent any reportable conditions and material weaknesses discovered during the course of the audit. Reportable conditions are significant deficiencies in the design or operation of the internal control structure, which could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition when specific elements of the condition do not reduce to a relatively low level, the risk that errors or irregularities in amounts that may be material to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Should the auditor find no reportable conditions during an audit, the report should state that no material weaknesses were found.

In addition, the auditor must communicate to management, either verbally or in writing, any deficiencies in the internal control structure that are not significant enough to be reportable conditions. If the auditor has issued a separate written communication (Management Letter) describing such "non-reportable conditions," that communication must be referred to the report on internal controls and a copy of the written communication shall be sent to the CDE's AID.

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<sup>9</sup> If conditions believed to be material weaknesses are disclosed, the report should identify the material weaknesses that have come to the auditor's attention. The last sentence of this paragraph should be replaced with language such as the following:

*However, of the reportable conditions described above, we consider items [List related finding reference numbers] to be material weaknesses.*

<sup>10</sup> If this report is issued for an audit that is not subject to OMB Circular A-133, this sentence should be modified as follows:

*This report is intended for the information of the audit committee, management and [specify legislative or regulatory body].*

All references to the schedule of findings and questioned costs should be removed and, instead, a description of the findings should be included in the report.

<sup>11</sup> If the report is not a matter of public record, this sentence should be deleted.

Auditor's Letterhead

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROLS OVER FINANCIAL  
REPORTING BASED ON A AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS  
[No Reportable Instances of Noncompliance and No Material Weaknesses  
(No Reportable Conditions Identified)]**

Board of Directors  
XYZ Child Development, Inc.,

We have audited the financial statements of **XYZ Child Development, Inc.**, as of and for the year ended June 30, 19X9, and have issued our report thereon dated August 15, 19X9<sup>7</sup>. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards,<sup>8</sup> issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether **XYZ Child Development, Inc.'s**, financial statements are free of material misstatement, we performed tests of its compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance that we required to be reported under **Government Auditing Standards**.<sup>9,10</sup>

Internal Control Over Financial Reporting

In planning and performing our audit, we considered **XYZ Child Development, Inc.'s** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no operation that we consider to be material weaknesses.<sup>11</sup>

---

<sup>7</sup> Describe any departure from the standard report (e.g., qualified opinion, modification as to consistency due to change in accounting principle, reference to the report of other auditors, etc.).

<sup>8</sup> The standards applicable to financial audits include the general, field work, and reporting standards described in Chapters 3,4, and 5 of *Government Auditing Standards*.

<sup>9</sup> See *Government Auditing Standards*, Chapter 5, paragraphs 5.18 and 5.19 for reporting criteria.

<sup>10</sup> If the Auditor has issued a separate letter to management to communicate matters that do not meet the criteria for reporting in paragraph 5.18 of *Government Auditing Standards*, this paragraph should be modified to include a statement such as the following:

However, we noted certain immaterial instances of noncompliance that we have reported to management of **XYZ Child Development, Inc.**, in a separate letter dated August 15, 19X8.

This reference to management is intended to be consistent with *Government Auditing Standards*, Chapter 5, Paragraph 5.20, which indicates that communications to "top" management should be referred to.

<sup>11</sup> If the auditor has issued a separate letter to management to communicate other matters involving the design and operation of the internal control over financial reporting, this paragraph should be modified to include a statement such as the following:

However we noted other matters involving the internal control over financial reporting that we have reported to Management of XYZ Child Development, Inc. in separate letter dated August 15, 19X9

This reference to management is intended to be consistent with *Government Auditing Standards*, Chapter 5, paragraph 5.28, which indicates that communications to "top" management should be referred to.

This report is intend for the information of the Board of Directors Audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.<sup>12</sup>

[Signature]

August 15, 19X9

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<sup>12</sup> If this report is issued for an audit that is not subject to U.S. Office of Management and Budget Circular A-133, this sentence should be modified as follows:

This report is intended for the information of the Board of Directors, audit committee, management, the California Department of Education (CDE), the United States Department of Agriculture (USDA), and [specify any other applicable legislative or regulatory body].

## Auditors Letterhead

### REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Director  
XYZ Child Development, Inc.

We have audited the financial statements of **XYZ Child Development Inc.**, as of and for the year ended June 30, 19X9, and have issued our report thereon dated August 15, 19X9.<sup>13</sup> We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*,<sup>14</sup> issued by the Comptroller General of the United States.

#### Compliance

As part of obtaining reasonable assurance about whether XYZ Child Development, Inc.'s, financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective our audit and, accordingly, we do not express such a opinion. The results of our test disclosed instances of compliance that are required to be reported under **Government Auditing Standards**<sup>15</sup> which are described in the accompanying schedule of findings and questioned costs as items [List related finding reference numbers, for example 99-2 and 99-5].<sup>16</sup>

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered **XYZ Child Development, Inc's.**, internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect **XYZ Child Development, Inc's.**, ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items [*List related finding reference numbers, for example 99-1, 99-4 and 99-8*].

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<sup>13</sup> Describe any departure from the standard report (e.g., qualified opinion, modification as to consistency due to change in accounting principle, reference to the report of other auditors, etc.)

<sup>14</sup> The standards applicable to financial audits include the general, field work, and reporting standards described in Chapters 3,4, and 5 of *Government Auditing Standards*.

<sup>15</sup> See *Government Auditing Standards*, chapter 5, paragraphs 5.18 and 5.19, for reporting criteria.

<sup>16</sup> If the auditor has issued a separate letter to management to communicate matters that do not meet the criteria for reporting in paragraph 5.18 of *Government Auditing Standards*, this paragraph should be modified to include a statement such as the following:

We also noted certain immaterial instances of noncompliance that we have reported to management of XUZ Child Development, Inc. in a separate letter dated August 15, 19X8. This reference to management is intended to be consistent with *Government Auditing Standards*, Chapter 5, paragraph 5.20 which indicates that communications to "top" management should be referred to.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.<sup>17 18</sup>

This report is intended for the information of the Board of Directors, audit committee, management and federal awarding agencies and pass-through entities not intended to be ad should not be used by anyone other than those specified parties.<sup>19</sup>

[Signature}  
August 15, 19X9

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<sup>17</sup> If conditions believed to be material weaknesses are disclosed, the report should identify the material weaknesses that have come to the auditor's attention. The last sentence of this paragraph should be replaced with language such as the following:

However, of the reportable conditions described above, we consider items [Listed related finding reference numbers, for example 98-1 and 98-8] to be material weaknesses.

<sup>18</sup> If the auditor has issued a separate letter to management to communicate other matters involving the design and operation of the internal control over financial reporting, this paragraph should be modified to include a statement such as the follows:

We also noted other matters involving the internal control over financial reporting that we have reported to management of XYZ Child Development, Inc. in a separate letter dated August 15, 19X8. This reference to management is intended to be consistent with Government Auditing Standards, chapter 5, paragraph 5.28, which indicates that communications to "top" management should be referred to.

<sup>19</sup> If this report is issued for an audit that is not subject to U.S. Office of Management and Budget Circular A-133, this sentence should be modified as follows:

This report is intended for the information of the Board of Directors, audit committee, management and the California Department of Education (CDE), the United States Department of Agriculture (USDA), and [specify any other applicable legislative or regulator body.]

Also, all references to the schedule of findings and questioned costs should be removed and, instead, a description of the findings should be included in the report.

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Circular A-133 establishes requirements for additional audit procedures and reporting relative to the auditors consideration of internal control over compliance for major federal programs.

The auditee is responsible for designing and implementing internal control that is sufficient to provide reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

In addition to the requirements of GAAS and GAS, OMB Circular A-133 required the auditor to:

- Perform procedures to provide sufficient knowledge of both the design of the relevant controls pertaining to each of the five internal control components in SAS No. 78, as follows:
  1. Control Environment
  2. Risk Assessment
  3. Control Activities
  4. Information and Communication
  5. Monitoring
- Whether they have been placed in operation in order to plan the audit to support a low assessed level of control risk for major programs.
- Plan the testing of internal control over compliance for major federal programs to support a low assessed level of control risk for the assertions relevant to the compliance requirements for each major program.
- Perform testing of the internal control over compliance as planned,
- Report on internal control over compliance describing the scope of the testing of internal control and the results of the tests and referencing to the separate schedule of findings and questioned costs. Therefore, the findings disclosing reportable conditions in the internal control over compliance for major programs should be evaluated as to whether any such conditions were material weaknesses and whether they have any effect on the agency's financial statements and supplementary information.

18. Does the report on compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133 include: (GAS, Chapter 5, AU 801.73 – 74, and AU 801.83 – 84; and SOP 98-3, *Appendix D*)

**Compliance**

- |      |   |               |
|------|---|---------------|
| a.   | a statement that the entity's compliance with the types of requirements, as described in OMB Circular A-133 Compliance Supplement that are applicable to each of its major federal programs, and identified in the report, was audited for the year ended.? | <b>REJECT</b> |
| <br> |   |               |
| b.   | Make reference to the entity's major federal programs that are identified in the Summary of auditor's results section of the accompanying schedule of findings And questioned costs?  | <b>REJECT</b> |

**STATUS:**

- |   |  |
|---|--|
| c. a statement that compliance with the requirements of laws, regulations, contracts and grants applicable to each of the entity's major federal programs is the responsibility of the entity's management, and that the auditor's responsibility is to express an opinion on compliance with those requirements based on his or her audit? | <b>REJECT</b>  |
| d. a statement that the audit was conducted in accordance with GAAS, GAS, and OMB Circular A-133?   | <b>MINOR IF<br/>AT LEAST<br/>TWO<br/>REJECT IF<br/>ONE OR<br/>NONE</b> |
| e. a statement that GAAS, GAS, and OMB Circular A-133 required that the auditor plan and perform the audit to obtain reasonable assurance about whether noncompliance with the requirements referred to above that could have a direct and material effect on a major federal program, occurred?  | <b>REJECT</b>  |
| f. a statement that an audit includes examining on a test basis, evidence about the entity's compliance with the requirements referred to above and performing other such other procedures as the auditor considered necessary in the circumstances?  | <b>REJECT</b>  |
| g. a statement that the auditor believes that his or her audit provides a reasonable basis for an opinion?  | <b>REJECT</b>  |
| h. a statement that the audit does not provide a legal determination on the entity's compliance with those requirements?  | <b>REJECT</b>  |
| i. an opinion on whether the entity complied in all material respects, with the requirements referred to above that are applicable to each of its major federal programs?   | <b>REJECT</b>  |
| i. if a qualified opinion is rendered on compliance due to reportable conditions does the report include an explanatory paragraph that precedes the opinion paragraph which describes or refers to a footnote with the following information:   |  |
| 1. Identifies the noncompliance items in a list of related finding reference numbers in the accompanying schedule of findings and questioned costs?   | <b>REJECT</b>  |
| 2. a statement identifying the types of compliance requirements that the entity did not comply with?  | <b>REJECT</b>  |
| 3. identifies the major federal programs(s) with the types of noncompliance referenced in (ii) above?   | <b>REJECT</b>  |

18. Compliance (continued)

**STATUS:**

4. a statement that compliance with such requirements is necessary in the auditor's opinion for the entity to comply with requirements applicable to the programs(s)? **REJECT**
- k. does the qualified opinion paragraph state that in the auditor's opinion, except for the noncompliance in the preceding paragraph, that the entity complied, in all material respects, with the requirements referred to in j. above, that are applicable to each of its major federal programs for the year then ended?<sup>12</sup> **REJECT**
- l. if instance of noncompliance were noted does the report include each of the following:
1. a statement that the instances of noncompliance are required to be reported in accordance with OMB Circular A-133?; and **REJECT**
2. a reference to the instances of noncompliance as described in the accompanying schedule of findings and questioned costs as items listed?<sup>13 14</sup> **REJECT**
- m. a statement that management is responsible for establishing and maintaining **REJECT**  
effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs?
- n. a statement that, in planning and performing the audit, the auditor considered the entity's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing an opinion on the entity's compliance and to test and to report on internal control over compliance in accordance with OMB Circular A-133? **REJECT**
- o. if NO reportable conditions were noted does the report include each of the following:
1. a statement that the auditor's consideration of internal control over compliance would not necessarily disclose all matters on the internal control that might be material weaknesses under standards established by the AICPA? **REJECT**

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<sup>12</sup> When other instances of noncompliance are identified in the schedule of findings and questioned costs as required by OMB circular A-133, the following sentence should be added:

*The results of our auditing procedures also disclosed other instances of noncompliance with those Requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items [List related finding reference number(s)].*

<sup>13</sup> Should list related finding reference numbers, for example, 97-3 and 97-6.

<sup>14</sup> When there are no such instances of noncompliance identified in the schedule of findings and questioned costs, the last sentence should be omitted..



Internal Control Over Compliance (continued)

**STATUS:**

- |      |   |               |
|------|---|---------------|
| 2.   | the definition of a material weakness?, and   | <b>REJECT</b> |
| 3.   | a statement that the auditor noted no matter involving the internal control over compliance and its operation that he or she considered to be material weaknesses as defined above? <sup>15</sup>                       | <b>REJECT</b> |
| 4.   | if a separate single audit package is issued, as referenced in 3.k. note 2, does the auditor include the required reporting on the schedule of expenditures of federal awards, as follows:                              |               |
| i.   | a statement that the auditor has audited the financial statements and a reference to the auditor's report thereon?  | <b>REJECT</b> |
| ii.  | identify the additional information accompanying the financial statements? (The report must either identify the schedule, or reference the page on which the schedule is located).                                      | <b>REJECT</b> |
| iii. | statement that the accompanying schedule is presented for purposes of additional analysis as required by OMB Circular A-133?  | <b>REJECT</b> |
| iv.  | clearly identify the auditor's examination and responsibilities related to the <u>Schedule of Expenditures of Federal and State Awards</u> ?  | <b>REJECT</b> |
| v.   | include either an opinion on whether the schedule is fairly stated in all material respects in relation to the financial statements taken as a whole, or a disclaimer of opinion?                                       | <b>REJECT</b> |
| p.   | if reportable conditions <u>were noted</u> does the report include each of the following:   |               |
| 1.   | the definition of a reportable condition?,  | <b>REJECT</b> |
| 2.   | a reference to the accompanying schedule of findings and questioned costs describing the reportable condition(s) noted?,  | <b>REJECT</b> |
| 3.   | the definition of a material weakness?, and   | <b>REJECT</b> |
| 4.   | a statement about whether the auditor believes any of the the reportable conditions are material weaknesses?  | <b>REJECT</b> |
| q.   | if the reportable conditions noted were considered to be material weaknesses does the report identify which reportable conditions are material weaknesses by including a list of the related finding reference numbers? | <b>REJECT</b> |

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<sup>15</sup> As referenced to in 3.k, note 2, there may be instances where it would be appropriate to report on the schedule of expenditures of federal awards in this report (i.e., a separate Footnote 9 (continued): single audit package is issued). In such a circumstance, a new section should be added immediately following this paragraph in accordance with 3.k.)

Internal Control Over Compliance (continued):

**STATUS:**

- r. a statement that the report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be used by anyone other than those specified parties? (SAS No. 87)
- s. include the manual or printed signature of the auditor's name or firm and the date of the audit report?

**MINOR**

**REJECT**

Auditors Letterhead

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR  
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

**[unqualified Opinion on Compliance and No Material Weaknesses (No Reportable Conditions Identified)]**

Board of Directors  
XYZ Child Development, Inc.

Compliance

We have audited the compliance of **XYZ Child Development, Inc.**, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 19X9. **XYZ Child Development, Inc.’s.** major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of **XYZ Child Development Inc.’s.**, management. Our responsibility is to express an opinion on **XYZ Child Development Inc’s.**, compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in **Government Auditing Standards**,<sup>20</sup> issued by the Comptroller General of the United States; and **OMB Circular A-133**, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and **OMB Circular A-133** require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **XYZ Child Development Inc’s.**, compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on **XYZ Child Development Inc’s.**, compliance with those requirements.

In our opinion, **XYZ Child Development Inc’s.**, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 19X8. However the results of our auditing procedures disclosed instances of non compliance with those requirements that are required to be reported in accordance with **OMB Circular A-133**<sup>21</sup> and which are described in the accompanying schedule of findings and questioned costs as items [*Listed related finding reference number, for example 99-3 and 99-6*].<sup>22</sup>

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<sup>20</sup> The standards applicable to financial audits include the general, field work, and reporting standards described in Chapters 3, 4 and 5 of Government Auditing Standards.

<sup>21</sup> Note: The reference to instances of non-compliance in accordance with OMB Circular A-133 is required only when the auditor issues an unqualified opinion on compliance with no material.

<sup>22</sup> When there are not sure instances of noncompliance identified in the schedule of findings and questioned costs, the last sentence should be omitted.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.<sup>23</sup>

This report is intended for the information of the Board of Directors audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

[Signature]

August 15, 19X9

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<sup>23</sup> As noted in footnote 5, there may be instances where it would be appropriate to report on the schedule of expenditures of federal and state awards in this report (i.e., a separate audit package is issued). In such a circumstance, a new section should be added immediately following this paragraph as follows:

Schedule of Expenditures of Federal and State Awards

We have audited the [*general-purpose or basic*] financial statements of **XYZ Child Development, Inc.**, as of and for the year ended June 30, 19X8 and have issued our report thereon dated August 15, 19X8. Our audit was performed for the purpose of forming an opinion on the [*general-purpose or basic*] financial statements taken as a whole. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by **OMB Circular A-133** and is not a required part of the [*general-purpose or basic*] financial statements and, in our opinion, is fairly states, in all material respects, in relation to the [*general-purpose or basic*] financial statements as a whole.

Auditors should also refer to footnote 4 and 7 for additional guidance.

Auditor's Letterhead

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR  
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133  
[Qualified Opinion on Compliance and Reportable conditions Identified]**

Board of Directors  
XYZ Child Development, Inc.

We have audited the compliance of **XYZ Child Development, Inc.** with the types of compliance requirements described in the U.S. Office of Management and Budget (*OMB*) **Circular A-133** Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 19X9. **XYZ Child Development, Inc.'s** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of **XYZ Child Development, Inc.'s**, management. Our responsibility is to express an opinion on **XYZ Child Development, Inc.'s** compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in **Government Auditing Standards**,<sup>24</sup> issued by the Comptroller General of the United States; and **OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations**. Those standards and **OMB Circular A-133** require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **XYZ Child Development, Inc.'s** compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on **XYZ Child Development, Inc.'s** compliance with those requirements.

As described in item [*List related finding reference number, for example, 99-*] in the accompanying schedule of findings and questioned cost, **XYZ Child Development, Inc.** did not comply with requirements regarding [*identify type(s) of compliance requirement*] that are applicable to its [*identify major federal program*]. Compliance with such requirements is necessary, in our opinion, for **XYZ Child Development, Inc.** to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, XYZ Child Development, inc., complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 19X9.<sup>25</sup>

Internal Control Over Compliance

The management of **XYZ Child Development, Inc.** is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered **XYZ Child Development, Inc.'s**.

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<sup>24</sup> The Standards applicable to financial audits include the general, field work and reporting standards described in Chapters 3, 4, and 5 of *Government Auditing Standards*.

<sup>25</sup> When other instances of noncompliance are identified in the schedule of findings and questioned costs as required by OMB Circular A-133, the following sentence should be added:

The results of our auditing procedures also disclosed other instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items [*List related finding reference number, for example, 98-?*]

Internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgement, could adversely affect XYZ Child Development, Inc's., ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items [List related finding reference numbers, for example, 99-8, 99-9].

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.<sup>26 27</sup>

This report is intended for the information of the Board of Directors audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

[Signature]  
August 15, 19X9

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<sup>26</sup> If conditions believed to be material weaknesses are disclosed, the report should identify the material weaknesses that have come to the auditor's attention. The last sentence of this paragraph should be replaced with language such as the following:

However, of the reportable conditions described above, we consider items {*List related finding reference number, for example, 98-? And 98-]*} to be a material weaknesses.

<sup>27</sup> As noted in footnote 5, there may be instances where it would be appropriate to report on the schedule of expenditures of federal and state awards in this report (i.e., a separate single audit package is issued). In such a circumstance, a new section should be added immediately following these paragraphs as follows:

Schedule of Expenditures of Federal and State Awards: We have audited the [*general-purpose or basic*] financial statements of XYZ Child Development, Inc. as of and for the year ended June, 19X8 and have issued our report thereon dated August 15, 19X8. Our audit was performed for the purpose of forming an opinion on the [*general-purpose or basic*] financial statements. Such information has been subjected to the auditing procedures applied in the audit of the [*general-purpose or basic*] financial statements take as a whole.

Auditors should also refer to footnote 4, and 7 for additional guidance.

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

### **FINDINGS AND RECOMMENDATIONS**

All findings, including internal control and compliance findings must be disclosed in this section. The finding, amounts or items questioned, and the auditor's recommendations must be included. Findings involving federal programs must be identified by the program name, program catalog number, and grant number (if applicable). Findings which require no corrective action should be presented with a statement to that effect which includes the specific reasons why no action is necessary.

This section should include a list of any federal and state financial reports which should have been included within the scope of the audit, but had not been filed with the appropriate agencies before the end of the auditor's fieldwork.

19. If noncompliance is reported, do(es) the report (s) on compliance (or accompanying schedule of Findings and Recommendations) include the following three components: **STATUS:**  
(GAS 5.7 – 5.9, 7.17 – 7.26, 7.33 – 7.53, and 7.55 – 7.69; and *SOP 98-3, Appendix E*)
- a. a summary of the auditor's results, including:
1. type of report issued on the financial statements? **MINOR, IF ELSEWHERE IN REPORT**
  2. statement on various elements of reports, as follows;
    - i). Internal control – the audit of the financial statements disclosed reportable conditions in internal control and whether any such conditions were material weaknesses? **REJECT**
    - ii). Noncompliance – material to the financial statements? **REJECT**
    - iii). Reportable conditions – in internal controls over major programs and whether any such conditions were material weaknesses? **REJECT**
    - iv). Type of opinion rendered – on compliance report for major programs? **MINOR, IF ELSEWHERE IN REPORT**
    - v). Audit findings – whether the audit disclosed any? **REJECT**
    - vi). Major programs – identified? **MINOR, IF ELSEWHERE IN REPORT**
    - viii). Dollar threshold – used to distinguish between Type A and Type B programs? **REJECT**

19.	<u>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</u> (continued)	<u>STATUS:</u>
a..	2. viii). Low-risk auditee – whether the auditee qualified as such?	<b>REJECT</b>
	ix). Prior audit findings – status?	<b>REJECT</b>
	x). fraud – identified?	<b>MINOR, IF ELSEWHERE IN REPORT</b>
	xi). Going-concern problem – identified?	<b>MINOR, IF ELSEWHERE IN REPORT</b>
b.	findings related to the financial statements where are required to be reported in accordance with GAGAS? (This is not a stand-alone report).	
c.	findings and questioned costs for federal awards that include the following as audit findings:	
	1. Reportable conditions in internal control over major programs?	<b>MINOR IF ELSEWHERE IN REPORT</b>
	2. Material noncompliance?	<b>REJECT</b>
	3. Known questioned costs which are greater than \$10,000?	<b>REJECT</b>
	3. Other issues, unless otherwise reported, such as:	
	i). Fraud?	<b>MINOR, IF ELSEWHERE IN REPORT</b>
	ii). Possible organization?	<b>MINOR, IF ELSEWHERE IN REPORT</b>

### **STATUS OF PRIOR-YEAR FINDINGS**

The status of actions taken by the agency on findings and recommendations reported in the prior year audit shall be presented in this section. Auditors should carefully determine that all prior year findings and recommendations, including those items separately reported under either the program compliance or internal control sections, are addressed. Prior-year findings which have not been corrected should be included as current year findings and recommendations as well.



## **STATUS OF PRIOR-YEAR FINDINGS** (continued)

20. If the prior audit report contained findings and questioned costs, does the report address the status of these prior recommendations, as follows: **STATUS:**

### Audit Follow-up:

- a. include a summary schedule of prior audit findings describing whether or not-
1. Corrective action taken is different from prior report? **REJECT**
2. Audit findings are not longer valid, under these circumstances:
- i). Two years have passed since audit report was submitted? **REJECT**
- ii). Federal agency or pass-through entity is not following up?, and **REJECT**
- iii). A management decision<sup>28</sup> was not issued? **REJECT**

21. If the audit report indicates the existence of a separate management letter, was a copy obtained? If not, obtain a copy. (GAS 5.8, 5.25) **REJECT**

A copy of the management letter issued during the audit shall be included in this section of the report or under a separate cover. However, if a separate management letter is issued, a copy must be submitted to CDE. **SEE APPENDIX A1, PAGE A-79** for an example a separate management letter.

22. Are all instances of noncompliance or material weakness in internal control affecting Federal awards that are included in the management letter, disclosed in the reports On compliance and internal control for Federal Programs? **MINOR**
23. Has the agency provided a corrective action plan to eliminate noncompliance with Federal laws, and material weaknesses in internal controls which includes the following:
- a. Contact person –
- Name(s) given auditor by auditee or name(s) stated in the audit report, Findings and corrective action plan? **REJECT**
- b. Action planned? **REJECT**
- c. Anticipated completion date? **REJECT**

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<sup>28</sup> Management Decision – an evaluation by Federal awarding agency or pass-through entity of the audit findings and corrective action plan and the issuance of a written decision as to what corrective action is necessary, as follows:

- a. Whether or not audit finding is sustained and the reason(s);
- b. Expected auditee action;
- c. Additional information; and
- d. Six-month time frames.

A corrective action plan for each finding and recommendation must be prepared by the agency and submitted as part of the audit report. The corrective action plan must describe the specific actions planned or taken to correct the problem noted by the auditor. General comments such as “Will implement”, “Accepted the recommendation”, or “Will discuss at a later date” are not considered adequate corrective action plans.

If the agency feels that the corrective action recommended by the auditor is not necessary or appropriate, a statement to that effect must be provided which includes the specific reasons why no action is necessary or appropriate.

If the agency does not submit a corrective action plan before the report is prepared, the auditor should include a statement that the corrective action plan was not available. The agency should prepare and distribute a corrective action plan to all holders of the audit report within 60 days after the issue date of the audit report.

- |     |   |   |
|-----|---|---|
| 24. | If the agency has determined that corrective action is not warranted, has it provided a basis for disagreement in a statement describing the reason(s) that corrective action is not necessary? | <b>REJECT</b>                           |
| 25. | Data Collection Form?   | <b>REJECT, IF<br/>MAJOR<br/>FEDERAL</b> |

## SINGLE AUDIT REVIEW CHECKLIST

AGENCY/SPONSOR: \_\_\_\_\_

AGREEMENT NUMBER (S): \_\_\_\_\_

C.P.A.: \_\_\_\_\_

FINANCIAL STATEMENTS PERIOD: \_\_\_\_\_ TO: \_\_\_\_\_

DATE OF AUDITOR'S REPORT: \_\_\_\_\_

DATE REPORT REVIEWED: \_\_\_\_\_ REVIEWER: \_\_\_\_\_

REVIEW RESULTS:

FASD MEMO <u>DATE:</u>	AGENCY/ SPONSOR LETTER <u>DATE:</u>	CPA LETTER <u>DATE:</u>
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RESERVE FUNDS VERIFICATION REQUESTED: \_\_\_\_\_

RESERVE FUNDS VERIFICATION RECEIVED: \_\_\_\_\_

SCHEDULE OF MEALS/ENROLLEMENT/SITES VERIFIED \_\_\_\_\_

AUDIT CLOSURE FOLLOW-UP ACTION REQUIRED \_\_\_\_\_

<u>INITIAL REVIEW:</u>	<u>2<sup>ND</sup>. REVIEW:</u>	<u>3<sup>RD</sup>. REVIEW:</u>
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_____	_____	_____	REPORT ACCEPTABLE, NO DEFICIENCIES
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_____	_____	_____	REPORT ACCEPTABLE, MINOR DEFICIENCIES
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_____	_____	_____	REPORT UNACCEPTABLE, MAJOR DEFICIENCIES
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DEFICIENCIES NOTES:

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DATE COMPLETED: \_\_\_\_\_

**Qualifications and Independence**

	<u>YES</u>	<u>NO</u>	<u>N/A</u>	
1.	___	___	___	_____
2.	___	___	___	_____

**Auditor's Report on the Financial Statements and Supplementary Schedule of Expenditures of Federal Awards**

	<u>YES</u>	<u>NO</u>	<u>N/A</u>	
3.a.	___	___	___	_____
3.b.	___	___	___	_____
3.c.	___	___	___	_____
3.d.	___	___	___	_____
3.e.	___	___	___	_____
3.f.	___	___	___	_____
3.g.	___	___	___	_____
3.h.	___	___	___	_____
3.i.	___	___	___	_____
3.j.	___	___	___	_____
3.k.1.	___	___	___	_____
3.k.2.	___	___	___	_____
3.k.3.	___	___	___	_____
3.k.4.	___	___	___	_____
3.k.5.	___	___	___	_____
3.l.1.	___	___	___	_____
3.l.2.	___	___	___	_____
3.l.3.	___	___	___	_____
3.l.4.	___	___	___	_____
3.l.5.	___	___	___	_____
3.m.	___	___	___	_____
4.a.	___	___	___	_____
4.b.	___	___	___	_____
4.c.	___	___	___	_____
5.a.	___	___	___	_____
5.b.	___	___	___	_____
6.a.	___	___	___	_____
6.b.	___	___	___	_____
6.c.	___	___	___	_____
7.a.	___	___	___	_____
7.b.	___	___	___	_____
8.a.	___	___	___	_____
8.b.	___	___	___	_____
9.a.	___	___	___	_____
9.b.	___	___	___	_____
9.c.	___	___	___	_____
9.d.	___	___	___	_____

**Financial Statements**

	<u>YES</u>	<u>NO</u>	<u>N/A</u>	
10.a.	___	___	___	_____
10.b.	___	___	___	_____
10.c.	___	___	___	_____
10.d.	___	___	___	_____

**Supplementary Schedules**

	<u>YES</u>	<u>NO</u>	<u>N/A</u>	
10.e.1.	_____	_____	_____	_____
10.e.2.	_____	_____	_____	_____
10.e.3.	_____	_____	_____	_____
10.e.4.	_____	_____	_____	_____
10.e.5.	_____	_____	_____	_____
10.e.6.	_____	_____	_____	_____
10.e.7.	_____	_____	_____	_____
10.f.1.	_____	_____	_____	_____
10.f.2.	_____	_____	_____	_____
10.f.3.	_____	_____	_____	_____
11.	_____	_____	_____	_____
12.	_____	_____	_____	_____

**Notes to the Financial Statements**

	<u>YES</u>	<u>NO</u>	<u>N/A</u>	
13.	_____	_____	_____	_____
14.	_____	_____	_____	_____

**Schedule of Expenditures of State and Federal Awards**

15.a.	_____	_____	_____	_____
15.b.	_____	_____	_____	_____
15.c.	_____	_____	_____	_____
15.d.	_____	_____	_____	_____
15.e.	_____	_____	_____	_____
15.f.	_____	_____	_____	_____
16.	_____	_____	_____	_____

**Report on Compliance/Internal Control – Government Auditing Standards**

	<u>YES</u>	<u>NO</u>	<u>N/A</u>	
17.a.	_____	_____	_____	_____
17.b.	_____	_____	_____	_____
<u>Compliance:</u>				
17.c.	_____	_____	_____	_____
17.d.	_____	_____	_____	_____
17.e.	_____	_____	_____	_____
17.f.	_____	_____	_____	_____
<u>Internal Control Over Financial Reporting:</u>				
17.g.	_____	_____	_____	_____
17.h.1.	_____	_____	_____	_____
17.h.2.	_____	_____	_____	_____
17.h.3.	_____	_____	_____	_____
17.i.1.	_____	_____	_____	_____
17.i.2.	_____	_____	_____	_____
17.i.3.	_____	_____	_____	_____
17.i.4.	_____	_____	_____	_____
17.j.	_____	_____	_____	_____
17.k.	_____	_____	_____	_____
17.l.	_____	_____	_____	_____

**Supplementary Schedules**

	<u>YES</u>	<u>NO</u>	<u>N/A</u>	
<u>Compliance:</u>				
18.a.	_____	_____	_____	_____
18.b.	_____	_____	_____	_____
18.c.	_____	_____	_____	_____
18.d.	_____	_____	_____	_____
18.e.	_____	_____	_____	_____
18.f.	_____	_____	_____	_____
18.g.	_____	_____	_____	_____
18.h.	_____	_____	_____	_____
18.i.	_____	_____	_____	_____
18.j.1.	_____	_____	_____	_____
18.j.2.	_____	_____	_____	_____
18.j.3.	_____	_____	_____	_____
18.j.4.	_____	_____	_____	_____
18.i.	_____	_____	_____	_____
18.l.1.	_____	_____	_____	_____
18.l.2.	_____	_____	_____	_____

**Internal Control Over Compliance:**

18.m.	_____	_____	_____	_____
18.n.	_____	_____	_____	_____
18.o.1.	_____	_____	_____	_____
18.o.2.	_____	_____	_____	_____
18.o.3.	_____	_____	_____	_____
18.o.4.i.	_____	_____	_____	_____
18.o.4.ii.	_____	_____	_____	_____
18.o.4.iii.	_____	_____	_____	_____
18.o.4.iv.	_____	_____	_____	_____
18.o.4. v.	_____	_____	_____	_____
18.p.1.	_____	_____	_____	_____
18.p.2.	_____	_____	_____	_____
18.p.3.	_____	_____	_____	_____
18.p.4.	_____	_____	_____	_____
18.q.	_____	_____	_____	_____
18.r.	_____	_____	_____	_____
18.s.	_____	_____	_____	_____

**Schedule of Findings and Questioned Costs**

	<u>YES</u>	<u>NO</u>	<u>N/A</u>	
19.a.1.	_____	_____	_____	_____
19.a.2.i.	_____	_____	_____	_____
19.a.2.ii..	_____	_____	_____	_____
19.a.2.iii.	_____	_____	_____	_____
19.a.2.iv.	_____	_____	_____	_____
19.a.2.v.	_____	_____	_____	_____
19.a.2.vi.	_____	_____	_____	_____
19.a.2.vii.	_____	_____	_____	_____
19.a.2.viii.	_____	_____	_____	_____
19.a.2.ix.	_____	_____	_____	_____
19.a.2.x.	_____	_____	_____	_____
19.a.2.xi.	_____	_____	_____	_____
19.b.	_____	_____	_____	_____

**Schedule of Findings and Questioned Costs** (continued)

	<u>YES</u>	<u>NO</u>	<u>N/A</u>	
19.c.1.	_____	_____	_____	_____
19.c.2.	_____	_____	_____	_____
19.c.3.	_____	_____	_____	_____
19.c.4.i.	_____	_____	_____	_____
19.c.4.ii.	_____	_____	_____	_____
20.a.1.	_____	_____	_____	_____
20.a.2.i.	_____	_____	_____	_____
20.a.2.ii.	_____	_____	_____	_____
20.a.2.iii.	_____	_____	_____	_____

**Other**

	<u>YES</u>	<u>NO</u>	<u>N/A</u>	
21.	_____	_____	_____	_____
22.	_____	_____	_____	_____
23.a.	_____	_____	_____	_____
23.b.	_____	_____	_____	_____
23.c.	_____	_____	_____	_____
24.	_____	_____	_____	_____
25.	_____	_____	_____	_____

## **APPENDIX E**

### **COMPLIANCE SUPPLEMENT REFERENCE**



**VENDOR DISBARMENT LIST:**

The U.S. General Services Administration maintains the Lists of parties Excluded From Federal Procurement on Non-Procurement programs.

Reference to these lists: [www.ARNET.GOV/EPLS](http://www.ARNET.GOV/EPLS)